



Department of Energy
Western Area Power Administration
Desert Southwest Customer Service Region
P.O. Box 6457
Phoenix, AZ 85005-6457

FEB 22 2005

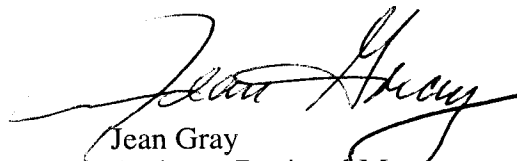
Dear Parker-Davis Project (P-DP) Customers and Interested Parties:

Attached is the presentation regarding Western's current annual operating plan for fiscal year 2005 (FY 05) and the need to purchase power that was given at the P-DP Advancement of Funds for Generation Facilities Contract No. 98-DSR-10870 Annual Planning meeting held February 10, 2005. Due to heavy rains this year, Western is making power purchases to fulfill the contractual energy obligations set forth in the P-DP Firm Electric Service contracts. As of the beginning of February, Western is estimating the energy deficit during FY 05 to be approximately 82 GWhs. Each rain storm typically brings a change to Reclamation's 24 month study and therefore the deficits we are estimating could significantly increase. The bulk of the power purchases are expected to be made this spring. Several options on how to pay for the energy deficits and the rate impacts were discussed at the Annual Planning meeting. One option listed in the attached slides shows Western utilizing only the energy banks to offset the cost of power purchases this year. This option would take the energy bank balances below the minimum that Western feels is acceptable for managing purchase power risks in the future. Western encourages customer dialogue regarding power purchases and will continue to host informational meetings. In the interim, Western will proceed to operate in the most efficient and cost effective manner.

Customers are asked to send in their comments/suggestions regarding options on how to pay for the expected energy deficits by March 4, 2005. Western will host an information meeting on March 22, 2005 beginning at 1:00 p.m. at Western's Desert Southwest Regional Office located at 615 South 43rd Avenue, Phoenix, Arizona, to further discuss these issues.

If you were unable to attend the Annual Planning meeting and would like to discuss the attached slides or if you have any questions, please contact Penny Casey at 602-605-2585.

Sincerely,


Jean Gray
Assistant Regional Manager
for Power Marketing

Agenda

- Final FY 04 AOP Data
- Preliminary FY 05 AOP Data presented May 4, 2004
- Current FY 05 AOP Data
- Preview Of FY 2006 – 2007 AOP Data

Agenda

- Current Energy Bank Balances
- Change to Energy Bank revenue shown as Other Revenue in the PDP rate FY 03-07
- Options available to cover shortfalls and associated rate impact
- Open Discussion

AOP Year End Total Summary

<i>Parker - Davis Project (GWh's)</i>	Actual Results FY 2004 AOP	Projected FY 2005 AOP Totals Presented 05/04/04	Current Projected FY 2005 AOP Totals	Projected FY 2006 AOP Totals	Projected FY 2007 AOP Totals	Projected FY 2008 AOP Totals
PDP Resources:						
PDP Generation	1630.2	1564.3	1485.0	1570.1	1573.0	1578.1
Energy Bank Purchases	0.0	40.0	0.0	0.0	0.0	0.0
Purchases	0.0	0.0	49.4	0.0	0.0	0.0
Total PDP Resources:	1630.2	1604.3	1534.4	1570.1	1573.0	1578.1
PDP Loads:						
Total PDP Firm Load	1572.4	1573.8	1565.3	1574.8	1573.9	1573.6
Excess Energy	25.5	0.0	0.0	0.0	0.0	0.0
Prior Year REA Dev.	-35.5	14.4 *	3.6	-32.8	-37.5	-38.3
Current Year REA Dev.	39.1	-9.5	-36.4	-4.7	-0.8	4.5
Accumulated REA Dev.	3.6	4.9	-32.8	-37.5	-38.3	-33.8
Prior Year Hoover Bank	1.4	0.0 *	-5.4	0.0	0.0	0.0
Current Year Hoover Bank	-6.8	0.0	5.4	0.0	0.0	0.0
Accumulated Hoover Bank	-5.4	0.0	0.0	0.0	0.0	0.0
Energy Bank Sales	0.0	40.0	0.0	0.0	0.0	0.0
Total PDP Loads:	1630.2	1604.3	1534.4	1570.1	1573.0	1578.1

2/15/2005

* Projected Accumulated REA Deviation and Hoover Bank from FY 04 as of 05/04/04

Estimated Cost of Energy Deficit

* Market Purchases/REA Reimbursements		GWH's
Fiscal Year 2005	** \$3,924,173	82.2
Fiscal Year 2006	\$222,075	4.7
Fiscal Year 2007	\$89,775	1.9
Fiscal Year 2008	\$0	0.0
Total FY 05 - 08	\$4,236,023	88.8

* Estimated Price is \$47.25 based on quotes, forwards, and historical price data

** FY 05 includes actual January cost of \$287,860

2/15/2005

Energy Bank Balances

Current Generation Energy Bank Balances:

\$1,925,564.35

SWOG updated 01/18/05

\$2,685,358.74

OEA updated 02/01/05

Total: **\$4,610,923.09**

Energy Bank Revenue shown as Other Revenue in the PDP Rate

	<u>Projected Energy to be Sold and Purchased</u>	<u>Actual</u>
FY 2003	\$1,025,000	\$2,596,498
FY 2004	\$1,025,000	\$0
FY 2005	\$1,025,000	\$0
FY 2006	\$1,025,000	\$0
FY 2007	\$1,025,000	\$0
Total:	\$5,125,000	\$2,596,498
Other Revenue Shortfall in Power Repayment Study		\$2,528,502*

***Due to the estimated cost of energy deficits the projected sold/purchased energy will not be executed**

2/15/2005

Summary:

Total Energy Deficit Estimated Costs

- | | |
|-------------------------|------------------------|
| • Energy Def Cost 05-08 | • \$4,236,023 |
| • Less Jan Actuals | • <u>(287,860)</u> |
| • Remaining Balance | • \$3,948,163 |
| | |
| • Energy Bank Bal | • \$4,610,923 |
| • Less CAS Other Rev | • (2,528,502) |
| • Less Energy Def Costs | • <u>(3,948,163)</u> |
| • Shortfall | • (\$1,865,742) |

Options to accommodate Energy Shortfalls & Impacts

Make Purchases Now
Deviations/Interchanges –
Deferred Liabilities
(paid back by end of FY 08)
Other Options

Options to accommodate Energy Shortfalls & Rate Impact

Options	1	2	3	4	5
Energy Banks	\$4.0M	\$2.0M	\$2.0M	0	0
Other Revenue	(\$2.5M)	(\$2.5M)	(\$2.5M)	(\$2.5M)	(2.5M)
Defer Liability Expense to FY 08	0	0	\$2.0M	\$4.0M	0
PPW Expense in Rate	0	\$2.0M	0	0	\$4.0M
Estimated Rate Increase	0.27mills/kWh	0.72 mills/kWh	0.27 FY05-07 1.93 FY08 mills/kWh	0.27 FY05-07 3.42 FY 08 mills/kWh	1.12 mills/kWh

2/15/2005

Rate Impacts of Various Options

- Use of Energy Banks has net zero impact on rate
- Over 05-08 timeframe, use of either purchase expense or deferred liability has same rate impact
- Purchase Power expense versus deferred liability has different real-time cash flow requirements

Discussion / Other Options

2/15/2005

Next Steps/Further Discussion

Send in comments/suggestions by
March 3, 2005

March Information Meeting

May Annual Operating Plan Meeting